

DISTRIBUTION CENTER PHYSICAL INVENTORY MANAGEMENT

1. Introduction. Previous chapters introduced the principles and techniques to be applied to the functions of space planning and utilization, capacity and commodity factors of storage, and the criteria to be followed to ensure the efficiency of a stock location system. Also, prior instruction identified the logical sequence of the planning of space utilization prior to receiving materiel to be stored; the receiving process including inspection, identification, classification, and quality control; the placement of materiel into its designated location; the maintenance of the stock locator file; and the importance of the accuracy with which all of these functions are performed. This chapter addresses the physical inventory function which must be conducted within a distribution center. Emphasis is placed on the procedures which have been developed to ensure the highest possible degree of accuracy in knowing what (quantity) and where (location) the materiel is stored at the distribution center. Management techniques involved in planning, scheduling, and conducting physical inventories and associated reconciliation actions are also discussed.

a. The overall management responsibility for each DoD item of supply is assigned to one of the Inventory Control Points (ICPs). The DoD storage activities receive, issue, and maintain the DoD on-hand inventories as directed by the ICPs. The ICPs determine purchase and repair requirements, contract for materiel, determine which items will be stocked within the supply system, determine stockage locations and the quantities to be stocked at each, determine customer distribution patterns and direct the receipt and issue of the materiel. The ICPs are also responsible for determining the disposition of both wholesale and retail excess materiel.

b. The ICP asset record balances are essential to make these day-to-day logistics decisions. If the ICP asset balance is not in

agreement with the actual on-hand balance, ineffective logistics decisions may be made. If the ICP balance is less than the actual on-hand balance, emergency procurements may be effected or routine procurements may be made earlier than required, diverting funds from items in actual need of resupply. Another possible consequence is the purchase of quantities that exceed the actual requirement. In the short term, this purchase diverts funds that could be used to purchase other items. In the long run, this purchase could result in a possible excess of the item. Other potential consequences of this condition may be the support of customers from other than the preferred storage activity or, worse yet, the inability to support customer requirements for the item. If the ICP asset balance is higher than the actual on-hand balance, the ICP may direct storage activities to issue stock that is not there. This condition, when detected, could result in an emergency purchase of the item and/or delays in providing the required customer support. In summary, inaccurate inventory records can result in shortages, excesses, missed production schedules, low productivity, late delivery, unnecessary expediting, and/or excess freight costs; all of which degrade weapon systems and customer support.

2. Objectives. After completing this lesson, you will be able to:

- a. Define the actions required in a physical inventory.
- b. List the types of physical inventories prescribed by the DoD.
- c. Define the stages of physical inventory research.
- d. Identify the conditions that require a physical inventory.

e. Illustrate the major management problems associated with planning, scheduling, and actually conducting a physical inventory.

3. Background. The DoD considers inventory accuracy as a mission essential function that is required to maintain the readiness and sustainability of our forces. These operational considerations are extremely important on a day-to-day basis; however, maintaining the trust and confidence of the Congress and the public is of equal importance. The Department must be able to demonstrate that it is exercising wise stewardship over the resources entrusted to it. When the perception of poor management or waste exist, it erodes public trust and confidence. This can result in budget reductions and/or excessive controls, both of which may have adverse effects on readiness and sustainability in the future.

a. Trust and confidence are easily lost but difficult to regain. This block of instruction seeks to increase your understanding of physical inventory management. Through your increased understanding, the inventory program will be strengthened and readiness improved.

b. The individual commander has the primary responsibility for maintaining adequate controls over inventories to ensure adequate asset accuracy and accountability. Commanders have the flexibility to tailor the physical inventory management program to meet their needs. The DoD level policies specify the minimum level of management that is mandatory throughout the department; however, more stringent controls can and should be applied when and where needed. For example, DoD physical inventory policy states that a complete inventory shall be conducted semiannually for all supply system non-nuclear missiles and rockets, and at least once every fiscal year for all other controlled items. This is the minimum standard requirement for these items; it does not preclude a greater frequency if the commander determines that a greater frequency is required to maintain adequate control.

4. References.

- a. DoDI 4140.1R, DoD Material Management Regulation.
- b. DoD 4000.25-2-M, Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP).
- c. DLAD 4140.69, Inventory Adjustment Research.

5. Time Standards and Goals.

- a. Stock Location. The objective is 100 percent agreement between the stock locator records and the actual location of stock. The minimum acceptable level is 99.5 percent.
- b. Physical Inventory Accuracy Level. The objective is for 100 percent agreement between the physical count of the items in inventory and the accountable record balances. The minimum acceptable level is 95 percent.
- c. Materiel Release Denials (MRD). The objective is zero MRDs, or 100 percent agreement between the assets in location and the quantity posted on the records. However, the DLA denial rate goal is not to exceed .4 percent. Denials must be processed within established MILSTRAP timeframes; IPGs 1 and 2 within one day, and IPG 3 within three days.

6. Physical Inventory. Physical inventory includes a physical count of stock located within a storage activity for verification of the recorded stock balances. An inventory requires a minimum of three **actions**: (1) an actual count of the stock; (2) a review of infloat documentation (receipts, issues, adjustments) at the storage activity; and (3) a comparison of the results of the physical count with balances recorded at the storage activity or accountable activity. Experience has demonstrated that several actions are required before, during, and after an inventory, but at a minimum, the three actions outlined above are required.

7. Impact of Physical Inventory on the Storage Function.

a. Knowing where the stocks are located within a distribution center is of critical importance to distribution center managers. Equally important is knowing how much is onhand. Even though the obligation to maintain quantitative and monetary accountability for these stocks rests with the accountable officer at the inventory control points and defense supply centers, distribution center managers must also maintain a Custodial Balance File for all of the items which are in the storage facilities. Therefore, it is essential that distribution center managers develop an understanding of the need for the procedures used in the conduct of the physical inventory. The vast inventory owned by the Department of Defense consists of items ranging from minute diodes to huge weapons systems and in prices ranging from a few cents to tens of millions of dollars. Currently, there are over four million items which have been cataloged for use within DoD.

b. It can readily be seen that the complexity, size, and value of the inventory within the DoD demands a precise accounting of the items in stock. The effectiveness of materiel acquisition, distribution, and overall supply management is dependent on the accuracy of stock records and related financial records maintained by the distribution centers and accountable activities. Since stock records are updated on a continuous basis as issues, receipts, and adjustments occur, and since physical stocks are subject to movement and handling within the storage area, it is recognized that discrepancies will occur.

c. One of the things that makes the DoD logistics system unique, when compared to the private sector, is the fact that for the most part our customers are captives of the system. In the private sector, if customers can't get an item from one supplier, they more often than not have other available sources. From the suppliers' standpoint, lacking an item means the loss of a sale, at best, and at worst the perma-

nent loss of that customer. In DoD, the lack of an item may mean the grounding of a multi-million dollar aircraft, the inability to carry out national security or political goals, or worse, loss of life.

8. Authority and Directives Relating to Physical Inventory.

a. The National Security Act of 1947, as amended by Public Law 216, directed the Secretary of Defense to have property records for the three military departments maintained on both a quantitative and monetary basis. The Secretary of Defense is required to report annually to both the President and Congress on the status of the defense inventory. In order to obtain the necessary information to compile the annual report to the President and Congress, the Department of Defense Instruction 4140.1R, "DoD Materiel Management Regulation," was published. This instruction provides policies, procedures, performance objectives, and effectiveness reporting for improving the accuracy of inventory control and asset information in the DoD supply system. The basic elements of the asset control program prescribed by DoDI 4140.1R are aimed at establishing:

(1) Uniform and improved practices for maintaining accurate stock locator records, physical inventory taking, research of potential inventory discrepancies, and quality control of work processes affecting inventory accuracy.

(2) Comparable measures of performance for cost and effectiveness analysis among the various inventory control systems.

(3) Reporting procedures necessary to measure the effectiveness of physical inventory control at selected points in the DoD supply system.

b. DoDI 4140.1R prescribes responsibilities, performance objectives, procedures, and reporting requirements pertaining to inventory, location survey, and

location reconciliation to ensure the greatest accuracy in inventory accounting.

9. The Physical Inventory Process. There are two basic approaches to assuring record accuracy. Wall-to-wall inventories such as the annual inventories taken by many commercial retailers and cyclic inventories where inventories are continuously taken. While the wall-to-wall concept frequently works well in the private sector, it is inappropriate for DoD. Private businesses draw-down on-hand quantities so there is less to count. They close their doors while conducting wall-to-wall inventories. The Department of Defense can do neither, as its supply system never stops. The DoD supply system must be operable 24 hours every day.

a. Physical inventories require counting the materiel in the storage location and comparing that count to the quantity recorded in the accountable record. This is a very labor-intensive effort; therefore, resources must be carefully and selectively applied to ensure maximum returns are derived from the investment. Since the DoD supply system never stops, strict controls must be placed on what we call in-float documentation. When a decision is made to physically inventory an item, a control date is established so that all inprocess transactions affecting the physical materiel quantity and the accountable record quantity are dated. This is done to identify whether these transactions occurred before or after the physical count was made. They must be properly considered when comparing the record on-hand asset balance to the physical count. The Department inventories over 2.7 million items valued at over \$60 billion on an annual basis. The program includes two basic **types of physical inventories**, unscheduled and scheduled.

(1) **Unscheduled Inventories.**

Unscheduled inventories are inventories which are not planned in advance. There are two types of unscheduled inventories, special and spot. Special inventories are prompted by the location audit program discussed in Chapter 5, or by

other circumstances that indicate a problem may exist, and **spot inventories are prompted by total and/or partial materiel denials.**

Unscheduled inventories are a top priority since they are addressing items with a known problem. Approximately two-thirds of all the inventories conducted in the wholesale system are unscheduled.

(2) **Scheduled Inventories.** Scheduled inventories are planned inventories with a predictable workload. The three types of scheduled inventories are:

(a) **Controlled Item Mandatory Inventory.** All supply system inventories of non-nuclear missiles and rockets (Security Risk Category I Items) must be inventoried semiannually. At the unit level, they are inventoried monthly by physical count and quarterly by serial number. All other controlled items, including items designated as pilferable, must be subjected to physical inventory at least annually. These mandatory inventories are required due to the nature of the items.

(b) **Service/Agency Sample and Prioritization Model Inventory.** DoD policy states that all other items which did not have an unscheduled inventory or controlled item inventory performed shall be subject to inventory through a physical inventory selection and prioritization system. Selection and prioritization systems consider characteristics such as weapon system significance; recorded inventory quantity and dollar value; demand quantity, dollar value and frequency; proximity of anticipated replenishment action; forecasted replenishment quantity and value; and period of time since last inventory. The Service/Agency has the option of defining the appropriate sampling strategies and/or prioritization schemes that best focus their inventory resources so that they maximize readiness and accuracy.

(c) **DoD Annual Random Statistical Sample.** This is a newer requirement in the DoD program; however, some of the services have been using it for a number of years. Every

item in the inventory has an equal opportunity to be selected in the annual sample inventory. The purpose of this inventory is to generate unbiased management information which can be used to assess the impacts of policy and procedural changes and to measure progress toward improving physical inventory control processes. This sample was developed by the DLA Office of Operations Research and Resource Analysis (DORRA).

b. Distribution center policies relative to physical inventory.

(1) Distribution centers are required to establish and maintain accountable balance records for all stocks stored, to include updating through storage item data change actions and recording receipt, issue, and adjustment actions.

(2) Physical inventory and inventory reconciliation is to be accomplished using custodial records and mechanical abilities to control infloat actions on an "open for business" basis. The inventory process is conducted concurrently with other functions, such as receipt, issue, stock number change, and logistical transfer actions. However, intra-distribution center movement of materiel is restricted to the extent possible.

(3) To ensure that effective controls are maintained over inventory functions, the following policies apply:

(a) The central inventory organizational element at the ICP coordinates all types of inventories. Personnel from other organizational elements like item managers and program managers are not permitted direct contact with distribution centers to request inventories or stock availability information. All such requests are directed to the central inventory organization and, when appropriate, requests are forwarded to the distribution center inventory organization.

(b) Authorization at an ICP to initiate unscheduled inventories or any type of

request for asset availability at a distribution center is limited to the financial records officer and not more than four other personnel from the central inventory organization. Each ICP provides each distribution center a list of persons authorized to initiate such requests. Distribution centers do not accept requests for asset availability from persons other than those on the list.

(c) Distribution center managers maintain control(s) to ensure that all requests for inventories, accountable record balances, and asset availability are directed to the distribution center inventory element for response.

10. The Distribution Center Physical Inventory Organization.

a. Physical inventory functions are accomplished in the Inventory Integrity Division Directorate of Distribution. The typical standard organization for this division would include four branches.

(1) The Planning and Control element plans, schedules, and controls all physical inventory requirements to meet established timeframes. Additionally, this branch will determine the inventory workload capabilities of the distribution center based upon current workload standards and provide these data for long-range planning. The control of all input/output from the system pertinent to the physical inventory function is accomplished by this branch.

(2) The Physical Inventory element performs location surveys and physical inventories. This element has the added responsibility of identifying the need for moving/relocating stocks and for detecting and reporting operational practices and conditions affecting inventory reliability as well as coordinating corrective actions.

(3) The Research and Reconciliation element will be the investigative element of the division in that it provides the technical research, audit, and analysis of all the facts

pertinent to inventory programs. This element will also determine the causes and provide the explanations for all variances between the stocks and records. All information which is collected is identified by inventory cause, type, and date. The information is then used to strengthen procedures and controls, improve training, and in short, develop any corrective measures required to eliminate recurring discrepancies.

(4) The Logistics Data Management element maintains the Quantity By Location (QBL) at the distribution center and, as such, is responsible for all master catalog and management data, including proper distribution. This element works very closely with item managers and Catalog Data Agency personnel in researching and resolving all errors and deficiencies in the files pertaining to stocked items. In addition, this element initiates, controls, and submits adjustments resulting from inventory, reclassification, reidentification, and detection of concealed discrepancies. Also, this element controls all documents relative to reclassification and reidentification of materiel moving within the distribution center to and from the distribution center maintenance activity. This element prepares the transaction histories in support of adjustments for accountable activities.

b. Overall, the Inventory Integrity Division works closely with other distribution center elements in the process of accomplishing the inventory mission.

11. Preparation for Physical Inventory.

There are several checks which must be accomplished prior to the actual performance of "taking the count." These checks greatly improve the effectiveness of the physical inventory and, if properly accomplished, significantly reduce the number of problems which could otherwise develop. These include:

a. The **location survey** aids in making the physical inventory much more effective. The location survey is a review of locations to

ensure that the information on the materiel in the location is correctly recorded on the QBL. The Location Survey only pertains to the stock location and catalog data such as: unit of issue, shelf-life code, condition code, physical inventory/pilferage code, stock number, and expiration date (general supply items). The following items of data are required on the stock locator record for ammunition: stock number, site, unit of issue, condition code, physical inventory/pilferage code, and lot number.

b. The **location reconciliation** is a comparison of distribution center accountable records and the ICP/Defense Supply Center (DSC) financial record balances. The ICP/DSC advises the distribution center of those stock numbers which have a quantitative disagreement, at which time an inventory is conducted.

c. One more task must be accomplished prior to inventory and that is the establishment of the **Inventory Workload Bank**. This is done by the inventory activity to determine which items of supply can be inventoried during the following month. This determination is made during the third week of each month for inventories to be accomplished the following month. The data used to make this determination logically must come from areas such as materiel release denials, location reconciliation errors, direction from the ICP, and any local requests. During this process, the inventory priorities are considered. The **physical inventory priorities** are:

- (1) Materiel Release Denials (MRD).
- (2) Location Reconciliation.
- (3) Special ICP.
- (4) Scheduled.

d. The other functional areas such as receiving, storage, and transportation have a role in the physical inventory process.

(1) Infloat Documentation. When materiel undergoing inventory action is selected for issue, warehousing personnel notify the Inventory Integrity Division of the date and hour of stock selection. This process supports in-float documentation control.

(2) The inventory activity will receive an 8-day inventory in-float transaction listing 8 days before the scheduled count date, forwarding one copy of the issue portion to either the warehousing or transportation activity and one copy of receipt portion to either the warehouse or receiving activity. The applicable activity annotates the listing only if the item was selected or stowed. The listing is then returned to the inventory activity who reviews the listing and determines the status of the open transactions through coordination with warehousing, receiving, and transportation activities.

(3) A 2-day inventory in-float transaction listing is processed in the same manner as the 8-day listing.

12. Conducting the Physical Inventory.

a. Once the priorities have been considered, the Inventory Integrity Division is ready to request inventory lots from the Office of Information Systems and Technologies (OIST). Using the computer, the OIST builds an inventory lot by national stock number (NSN). The size of the lot, that is, the quantity of NSNs, are dictated by the inventory organization based on its workload capability. These lots are then entered on the Inventory Workload Bank. The Inventory Workload Bank is screened to select the lots or increments to be inventoried. The Inventory Control File and inventory control are then established. The next step is to request the first count transaction and to summarize the balances for those lots selected. The actual count transactions are a product of the computer and are produced for all condition codes and locations. In addition to the count transaction, the computer provides a Count Control Register to be used as a control device to ensure all count transactions are returned for processing after the

count. In addition, this listing provides a space for indicating actual quantities to check against the results of subsequent counts, if required, and the custodial balance file.

b. The actual count now takes place by an inventory counter who receives first count transactions on hand-held computers with sufficient data reflected thereon to inventory the item. The actual quantity is not reflected, however. During the conduct of the physical inventory, other areas are considered in addition to quantities. Many revelations come about during the inventory process which affect locations, conditions, space utilization, etc. Three major areas of storage deficiencies which must be considered by the counter and indicated on the card are: warehousing, materiel identification, and location identification. While making the **first count**, all bulk quantities as shown on the pallet count or case lot markings will be accepted unless obvious errors are evident. Quantity markings shown are accepted on original containers or packages that have been packed and sealed.

c. Upon completion of the count, the hour of inventory is indicated, then it is checked against the Count Control Register. The OIST reconciles the cards to the summary balance. This is accomplished by several computer actions. During reconciliation, the computer considers the infloat documentation segment which contains data relative to any actions which have transpired during the inventory control period which would affect the balance. The computer takes these transactions into consideration and adjusts the count quantity. Once the count quantities are revised, the computer then compares them with the summarized balance. If the revised count agrees with the summarized balance, the date of last inventory (DOLI) is changed on the QBL to reflect the new DOLI. The DOLI is updated if the revised count quantities and the summarized balance are in exact agreement, or within the dollar threshold. When there is a discrepancy within the dollar threshold, the computer will prepare all of the adjustments needed to change

the balance to the revised count and delete the item from the Inventory Control File and the Infloat Document File. In the event that the first count or revised count agrees with the summary balances or falls within the dollar threshold, no further physical inventory actions are required. It is when the revised count varies and is greater than the allowable limit that second count transaction is produced.

d. In this case, **second count** transactions are produced for all locations for counts which did not match the summary balance and exceed the dollar threshold. Once the second count transaction control register is produced, the actions of the second count follow that of the first. The counter conducts a physical count of all locations involved. On the second count, however, pallet count quantities are not accepted; but rather all quantities are pulled and counted. The counter then completes the second count transaction, at which time it is verified with the Count Control Register. The second count transactions are then sent to the OIST for processing the count data to the Inventory Control File. The reconciliation of the second count begins.

e. The second count is revised after considering all in-float documentation. During the reconciliation cycle, the computer compares the revised second count with the accountable balance and/or first count quantities. One of the following circumstances will result based on the second count. First, the count agrees with the accountable balance record. In this case, no further action is required. Second, the count does not match the accountable balance record, but matches the first count. In this case, the accountable balance record is adjusted to reflect the actual quantity on hand. Third, the count does not match the accountable balance record or the first count and the difference is less than the dollar threshold. At this time, research is conducted to resolve the discrepancy. Thereupon, the custodial balance record is adjusted to reflect the actual quantity on hand. Fourth, the count does not match the accountable balance record for the first count

and the difference is greater than the dollar threshold. In this circumstance, a third count is required. The **third count** results in one of the following circumstances after considering all in-float documentation. First, the count matches the accountable balance record. In this case, no further action is required. Second, the count does not match the accountable balance record but matches the first or second count. At this time, research is conducted to resolve the discrepancy at which time the accountable balance record is adjusted to reflect actual quantity on hand. Third, the count does not match the accountable balance record or the first or second counts. At this time, research is conducted to resolve the discrepancy. If the discrepancy cannot be resolved following the third count, the accountable balance record is adjusted to reflect the actual quantity on hand. Inventory adjustment threshold levels are contained in Defense Logistics Agency Directive (DLAD) 4140.69 entitled Inventory Adjustment Research, dated 13 January 1999. When the research is completed, adjustment documents prepared, custodial balance record adjusted, and the ICP notified, the inventory cycle is complete.

f. Physical inventory includes processing post-count validation, preadjustment, and causative research. Guidance as to what type of research should be conducted is contained in DLAD 4140.69. **Post count validation research** is a process where inventory personnel conduct additional counts for the purpose of verifying the count and quantity on hand. This action may include up to three counts and is a comparison of the physical count and the recorded quantity. This process takes into consideration in-float transactions and is required when the established dollar threshold (e.g., > \$1000) is exceeded. **Pre-adjustment research** is a process that is required when personnel are unable to resolve the inventory discrepancy through post-count validation. This research is more exhaustive, and its purpose is to determine the actual balance on hand prior to adjusting the accountable and financial records. Pre-adjustment research is a time-sensitive

process since the ultimate goal is to ensure that item managers at the Inventory Control Point (ICP) have the most accurate information regarding the on-hand balance. If the discrepancy cannot be resolved, inventory personnel will take action to adjust the custodial and accountable records with the actual on-hand balance. This, in turn, promotes more comprehensive and accurate decisions at the national inventory level. **Causative research** normally takes place following the adjustment to the accountable record, and its purpose is to identify the cause of the discrepancy so corrective action may be taken in an effort to prevent a recurrence. This process involves a complete review of all transactions occurring since the last inventory or at least 1 year. Included in the review are supporting documentation, catalog change actions, receiving and shipping discrepancies, and any unposted or rejected documentation. Causative research ends when the cause of the discrepancy has been discovered or if after the aforementioned review, no conclusive findings are possible. It is then the responsibility of the ICP personnel to determine the type of adjustment transaction required to account for the discrepancy or if further investigation is necessary such as a financial liability investigation of property loss. This form of investigation usually involves other distribution center personnel (e.g., security) and additional research in an effort to resolve the inventory discrepancy.

13. Conditions That Require a Physical Inventory.

a. Physical inventories must be taken whenever the ICP requests such actions. The ICP is limited to 5 percent of its total NSNs stored at a given distribution center. Inventories will also be conducted whenever there is a mismatch during the location reconciliation which is conducted semiannually on all locations having a positive balance on the DSNMDR. These may be either unscheduled inventories or special inventories.

b. Locally initiated inventories include those resulting from location surveys, MRDs, file maintenance process, materiel found on post, concealed discrepancies, and change in catalog data. These inventories may be scheduled inventories such as those resulting from rewarehousing projects, or they may be unscheduled inventories resulting from MRDs.

c. A complete scheduled inventory is conducted for items appearing on the selection and prioritization having three or more MRO actions within the previous fiscal year.

14. Management of Physical Inventory

Operation. Detailed planning, coordination, and adequate supervision of the inventory function is necessary to ensure success of the inventory program. The major management problem areas are as follows:

a. Selection of personnel. The ultimate success or failure of the inventory program within DoD depends on personnel. Inventory personnel must be highly trained and proficient in inventory skills. Management attention must be given to the controls, responsibilities, and summaries of work to be performed. In short, outline the work that must be done, how the work is to be accomplished, then supervise the actual conduct of the work performed. The desired educational and experience requirements for inventory personnel must be adequately described in job descriptions in order to reduce the training and supervision required.

b. Training of personnel. The training of personnel engaged in inventory operations is a prerequisite for efficient operations. On-the-job training includes such things as the purpose of the inventory; the correct reading of NSNs, unit of issue, nomenclature, and item identification; warehouse locations and classification of items as to condition. Training also includes counting methods and procedures used in inventory.

c. Materiel/document control. Physical inventory personnel must be trained to understand the importance of the control of

materiel and documentation into and out of the storage activity. Even though the system provides for infloat documentation control, it is essential that personnel understand supply operations.

d. Automatic data processing. An effective physical inventory program is dependent on the adequate and effective application of ADP equipment and programs. Inventories must be scheduled with consideration given to the available data processing capability. If the availability of data processing equipment and programs is not considered, inventory schedules cannot be met and the timely and accurate reconciliation and adjustment of inventory records will be impossible.

15. Physical Inventory Problem Areas.

Distribution center managers must be able to recognize the conditions and actions which cause the major problems in the physical inventory function. Consider the following:

a. Location.

(1) Locations deleted which contain materiel.

(2) No materiel in newly established locations.

(3) Location changes reflecting erroneous data such as wrong row, level, etc.

b. Receiving.

(1) Materiel received not posted to stock records.

(2) Quantity posted to stock records--materiel not for stock.

(3) Materiel received once--posted to stock records twice or more.

(4) Quantity posted to stock records other than that received.

(5) Overage/Shortage on receipt not processed to stock records.

(6) Receipt processed to wrong condition code.

c. Issue.

(1) Materiel issued offline and not processed to stock records.

(2) Quantity expended from stock record--materiel not issued.

(3) Quantity expended from stock record once--materiel issued twice.

(4) Wrong materiel shipped or wrong quantity shipped.

d. File Maintenance.

(1) Catalog data change action processed to custodial record, such as NSN or unit of issue, and materiel at location not remarked.

(2) Reidentification or reclassification action taken and record not updated.

(3) Infloat documents not controlled or considered during inventory.

(4) Erroneous adjustment actions processed to the QBLR.

(5) Materiel received for special project not properly identified on the QBLR.

(6) In-house movement of materiel, such as items in maintenance not controlled and/or processed to the file.

(7) Materiel disposed of and not credited to the file.

Needless to say, this is by no means a complete list of those areas which impact on physical

inventory, but is indicative of the kinds of errors which are made daily that plague the manager.

16. Physical Inventory Initiatives. There are several plans and programs under study or in active testing throughout the DoD to enhance the physical inventory program. Two of the more significant actions are:

a. Automatic Identification Technology (AIT) enables and facilitates data collection and transmission to Automatic Identification Systems. AIT can improve DoD's logistics business processes and enhance warfighting capability by facilitating the collection of initial source data, reducing processing times, and improving data accuracy. The use of AIT is a principal component in DoD's efforts to provide timely visibility of all logistics assets, whether in-process (being procured or repaired), in-storage (being stored as inventory), or in-transit (being shipped to another location). Linear bar codes are the most used AIT technology currently in use in DLA distribution centers. Possibly as significant as AIT technology is Radio Frequency Data Collection (RFDC), a name applied to the technology that lets a two-way data radio-enabled Portable Data Collection Device (PDCD) act as a mobile (fork lift or other warehouse vehicle-mounted) terminal working with the warehouse main computer system. RFDC terminals can also be hand held, but this is far less common. The combination of linear bar codes and RFDC terminals is what runs DLA automated warehouses. There are NSN bar codes on the stock and location identification bar codes on the bins and bulk storage locations. The scanners on the RFDC terminals read both of these types of bar codes in stowing and picking operations. The NSN bar code is used in essentially every process from receiving inventory, consolidation, packing, and shipping.

b. In addition to AIT, several other areas are being studied to improve physical inventory

throughout the command. Some of the more significant proposals are:

(1) Improved training for physical inventory personnel.

(2) Providing inventory counters more responsibilities such as research with appropriate grade increases.

(3) Updating appropriate regulations.

(4) Improving ADP related programs to provide quicker and more accurate response to inquiries, to include voice-activated technologies.

(5) Improving infloat documentation control.

(6) Improving scheduling techniques. The order of merit list must be changed to fit present day needs of the item manager who should have more authority to determine what stock is inventoried and when.

(7) Education of all distribution center personnel on the impact of actions in other functional areas on inventory accuracy.

17. Summary. Physical inventory is a program designed to assist managers in maintaining accountability and custody of DoD stocks. This chapter focused on types of inventories, physical inventory, stock location accuracy goals, and MRD processing. The preparation for a physical inventory addressed management techniques, limitations on unscheduled inventories, and inventory priorities. The conduct of the physical inventory focused on the physical count procedures, dollar threshold, and the reconciliation process. Many management problems regarding physical inventory were identified. Finally, physical inventory initiatives, such as bar code technology, were introduced.

Exhibit 1

CONDITION CODES

- 1. Code A, Serviceable.** New, used, repaired, or reconditioned materiel which are serviceable and issuable to all customers without limitation or restriction.
- 2. Code B, Serviceable.** New, used, repaired, or reconditioned materiel which are serviceable and issuable for their intended purpose, but which are restricted from issue to specific units, activities, or geographical areas by reason of their limited usefulness or short-life expectancy.
- 3. Code C, Serviceable.** Items which are serviceable and issuable to selected customers, but which must be issued before condition A and B materiel to avoid loss and a usable asset.
- 4. Code D, Serviceable.** Serviceable materiel which require test, alteration, modification, conversion, or disassembly.
- 5. Code E, Unserviceable.** Materiel which involve only limited expense or effort to restore to serviceable condition and which are accomplished in the storage activity.
- 6. Code F, Unserviceable.** Economically reparable materiel which require repair, reconditioning, or overhaul.
- 7. Code G, Unserviceable.** Materiel requiring additional parts or components to complete the end item prior to issue.
- 8. Code H, Unserviceable.** Materiel classified by inspection, teardown, analysis, or engineering decision to be uneconomically reparable and of no value to the Government except for value of materiel content.
- 9. Code J, Suspended.** Materiel in stock which have been suspended from issue pending condition classification or analysis, where the true condition is not known.
- 10. Code K, Suspended.** Materiel returned from customers and users suspended from issue pending inspection and/or condition classification.

Exhibit 1 (Continued)**CONDITION CODES**

11. Code L, Suspended. Includes assets received from procurement or other sources which contain shortages, overages, defects, or other conditions requiring negotiation or litigation with procurement sources or common carrier to determine responsibility or liability for corrective action.

12. Code M, Suspended. Materiel identified on inventory control record but which have been delivered to, and accepted by, an Army or DoD maintenance facility or at a contractor's plant for processing.

OUTLINE FOR NOTETAKING

DISTRIBUTION CENTER PHYSICAL INVENTORY MANAGEMENT

I. Physical Inventory.

A. Time Standards and Goals.

1. Location Survey Accuracy.
2. Physical Inventory Accuracy.
3. Materiel Release Denial (MRD) Rate.

B. Definition.

C. Background.

II. Authority and Directives Relating to Physical Inventory.

III. Types of Physical Inventory.

IV. Distribution center Physical Inventory Organization.

V. Preparation for Physical Inventory.

VI. Conducting the Physical Inventory.

- A. Physical Counts.
- B. Causative Research.

VII. Conditions That Require a Physical Inventory.

OUTLINE FOR NOTETAKING (Continued)

DISTRIBUTION CENTER PHYSICAL INVENTORY MANAGEMENT

VIII. Management of Physical Inventory Operation.

IX. Physical Inventory Problem Areas.

A. Location.

B. Receiving.

C. Issue.

D. File Maintenance.

X. Physical Inventory Initiatives.

XI. Summary.

STUDY QUESTIONS

1. What is the importance of physical inventory management to distribution center operations?
2. What is the physical inventory accuracy goal for DoD?
3. What is the significance of inventory accuracy to the item manager?
4. What are the two basic types of physical inventory? Describe them.
5. What is a Materiel Release Denial (MRD)?
6. What are the four inventory priorities?
7. How many counts are possible during a physical inventory?
8. What are the four major problems facing distribution center inventory managers today?
9. Explain the term causative research.
10. How will barcoding/radio frequency/voice activated technologies contribute to a more effective and efficient physical inventory program?